

Analysis of Impact on Utah Income Tax Law Due to Changes in Federal and State Legislation

Morris Jackson, CPA

The Salt Lake Tribune

Utahns with large families could be paying a lot more in state taxes next year



(Steve Griffin | Tribune file photo) Members of the House of Representatives, their family members and staff stand for the singing of the national anthem as the 2018 legislative session begins at the Utah Capitol in Salt Lake City Monday, Jan. 22, 2018.



By Bill Dentzer

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You could call it the 2018 Utah Child Tax — a new levy imposed not by an act of the Legislature, but the lack of one. And it could cost most Utah families hundreds more next year, even as overall tax burdens decline under federal tax reform.

The 2018 Legislature approved a small income tax cut equal to a nickel on every \$100 of income. That gave state lawmakers tax-cutting bragging rights heading into an election year even as it delivered only token tax relief to all but the state's highest-paid residents.

But the Legislature's failure to address the impact of federal reforms on the state taxpayer exemption means that most Utah families will have a higher state tax bill in 2018. Larger families will get hit harder, while the childless benefit.

This in a state that year after year happily leads the nation in average household size.

Lawmakers approve \$30 million child tax credit for Utah families in special session

By Lisa Riley Roche @dnewspolitics

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SALT LAKE CITY — Lawmakers approved giving Utah families a \$30 million break on their state income taxes starting next year, a last-minute addition to Wednesday's special session agenda.

The details of the new tax credit, expected to reduce state income taxes owed by about \$34 for each dependent, or around \$170 for a family with five children, weren't finalized until just before the mid-afternoon session started.

"We thought we could do something good to help, and bring tax relief to some degree, and that's why we pursued it," House Speaker Greg Hughes, R-Draper, told reporters after lawmakers wrapped up the session in just a few hours.

The tax break amounts to a little less than half of the estimated impact of changes to the federal tax code on Utah families with more than two children earning between \$40,000 and \$80,000.

The \$1.5 trillion tax cut approved by Congress late last year eliminated personal exemptions, valued at \$4,050 each in 2017. Because Utah's income taxes are tied to the federal calculations, that means bigger tax bills for bigger families.

Senate President Wayne Niederhauser, R-Sandy, who was part of the closed-door discussions where the proposal was hammered out, said it was "going to be pretty sweet for people who have dependents."

The dependent credit was added on the House floor to a bill that changes how the state deals with net operating losses by businesses to conform to the new federal tax law. The bill now goes to Gov. Gary Herbert for his action.

The governor said in a statement he was "very pleased that as the Legislature harmonized our tax code with some recent major changes in national tax policy that they could help Utah's families avoid unanticipated income tax hikes."

During the 2018 Legislature, Rep. Tim Quinn, R-Heber City, tried unsuccessfully to get a bill passed aimed at helping families hardest hit by the loss of personal exemptions.



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Tribune Editorial: Tax hikes on families may be justified. But not by stealth.

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The argument that the chronic underfunding of Utah schools could be at least partially remedied by increasing the tax burden on Utah's many large families has been batted about for years.

Some see the state's habit of giving more income tax breaks to the same households that put the most strain on the public school system as perverse. Especially when, by the Utah Constitution, income tax revenue is dedicated to education.

Such a bill would sometimes be floated in the Legislature, but it never went very far. Not in family-friendly Utah.

Well, guess what. A recent [change in tax law](#) means that Utah families that had previously been able to reduce their tax liability by claiming deductions for each child will now lose that advantage. **The cost to individual households, depending on their size and income, could be nothing, a few hundred dollars or as much as \$1,000.**

And it all happened without the Utah Legislature doing a thing.

Which — even if you like large families paying more taxes for the schools they fill — is not a good way to make tax policy.

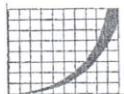
The changes are a result of the new federal tax bill, which balanced a much larger standard deduction for households by removing the individual deductions for dependents. Many families, in Utah and elsewhere, will find themselves coming out ahead on their IRS Form 1040.

But as Utah, like many other states, ties its tax calculations to specific parts of the federal tax code, the loss of individual federal dependent deductions means a smaller family break on state taxes. And thus more taxes paid to Utah.

Don't expect your member of the Legislature to fess up about that. What our lawmakers are hoping you notice — though most of us probably won't — is the tiny cut in the state's flat income tax rate. It will go from 5 percent to 4.95 percent, saving most families a pittance and giving the greatest benefit to the highest earners.

Some members of the Legislature did see this train coming, and at least one bill was introduced that would have headed off the accidental tax windfall. But that bill never made it out of committee.

Article continues below



SAVAGE ESPLIN & RADMALL, PC

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July 5, 2018

Susan Speirs
Chief Executive Officer
Utah Association of CPAs
136 S Main Street, Suite 510
Salt Lake City, UT 84101

Dear Susan,

I am writing to address the effect of the new federal tax law on Utah families. If Utah lawmakers do not change the Utah law, most families in Utah will see a state tax increase for 2018. There are options for Utah lawmakers to negate the tax increase on Utah families, but they must act to change the law. I hope you will pass this information onto Utah lawmakers. In the current economic state of Utah, there is no reason for a tax increase on Utah families.

The new federal tax law eliminates dependent exemptions. In 2017, each exemption lowered taxable income by \$4,050. With the elimination of this deduction, taxable income will be higher under the new law than it was in 2017.

The Utah tax law regarding dependent exemptions follows the federal law; therefore, the Utah exemption for 2018 is currently zero. Not having this deduction will cause more income to be taxed by the state of Utah. This will affect all Utah residents, yet families will be affected the most. If nothing is done by state lawmakers, families could see an increase in state tax over \$1,000.

Here are two options for Utah lawmakers that would negate a tax increase on Utah families:

Option 1: The federal lawmakers compensated for the elimination of exemptions by doubling the child tax credit. Utah lawmakers could compensate the same way by creating a Utah child tax credit to offset the tax increase of not having the exemption deduction.

Option 2: The dependent exemption amount in Utah could be changed back to \$4,050 like in 2017. This number could be indexed for inflation much like the federal exemption was in the past.

I hope that you can use this letter to share with Utah House of Representative Members and Utah State Senators. I hope this letter will help the state legislators see the effect of the new federal tax law on Utah families, as there will be a tax increase. I also hope that the options presented in this letter will aid the legislators in drafting legislation to vote on in a special session to change the law for the 2018 tax year. Next tax season, I don't want to have to tell hundreds of my clients that their state tax went up because the legislature did nothing to offset the effect of the new federal tax law. Please contact me with any questions or feedback.

Sincerely,

Tyler Hall, CPA

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**Utah Income Tax
2018 vs 2017
Federal & State Legislation Changes Impacting Utah Income Tax**

		2017		2018	
Standard Deduction		Federal	Utah	Federal	Utah
Filing Status	Single/Married Filing Separate	\$6,350	\$6,350	\$12,000	\$12,000
	Head of Household	\$9,300	\$9,300	\$18,000	\$18,000
	Married Filing Joint	\$12,700	\$12,700	\$24,000	\$24,000
Exemptions (Dependents)					
Filing Status	Single/Married Filing Separate	\$4,050	\$3,038	\$0	\$565
	Head of Household	\$4,050	\$3,038	\$0	\$565
	Married Filing Joint	\$4,050	\$3,038	\$0	\$565
(In 2017 Tax Exemption applied to the Taxpayer and Qualified Dependents) (Starting in 2018 Tax Exemption only applies to Dependent Children under age 18 and Students under age 24 attending college)					
	Disabled Child or Blind (In Addition to Regular Exemption)	\$4,050	\$3,038	\$0	\$0
Income Tax Rate		Various	5%	Various	4.95%
Tax Credits (Per Child)		\$1,000	0	\$2,000	0
Utah Tax Credit			6%		6%
Utah Tax Credit Phase Out Percent			1.3%		1.3%
Phase out Applies to Income in Excess of Phase Out Threshold					
Utah Tax Credit Phase Out Threshold					
Filing Status	Single/Married Filing Separate		\$13,978		\$12,000
	Head of Household		\$20,968		\$18,000
	Married Filing Joint		\$27,956		\$24,000

**Utah Income Tax
Comparison Between 2017 & 2018**

	Married Filing Joint 4 Children			
		2017		2018
Fed AGI		\$102,000		\$102,000
State Tax Refund		\$0		\$0
Utah Taxable Income		\$102,000		\$102,000
Utah Tax	5%	\$5,100	4.95%	\$5,049
Exemptions (2017 - 6 2018 -4)	\$3,038	\$18,228	\$565	\$2,260
Itemized Deductions		\$21,000	\$21,000	
Standard Deduction	\$12,700	\$0	\$24,000	\$24,000
Total		\$39,228		\$26,260
State Tax Deduction		-\$4,000		\$0
Net		\$35,228		\$26,260
Initial Credit	6%	\$2,114		\$1,576
Phase out Income	\$27,956	\$27,956	\$24,000	\$24,000
Income subject to Phase Out		\$74,044		\$78,000
Phase out amount	1.30%	\$963	1.30%	\$1,014
Tax Payer Credit		\$1,151		\$562
Utah Income Tax		\$3,949		\$4,487
Tax Increase/(Decrease)				\$539
Effective Tax Rate		3.87%		4.40%

Utah Income Tax

2018 vs 2017

Impact due to Federal & State Legislation Changes

Single/MFS Standard Deduction = \$12000

Single/MFS Itemizes Deductions > \$12000

Assumption: Itemized Deduction Equals 25% of AGI

	Adjusted Gross Income							
	\$25,000	\$50,000	\$75,000	\$100,000	\$125,000	\$150,000	\$200,000	\$250,000
Item Ded 25% of AGI	\$6,250	\$12,500	\$18,750	\$25,000	\$31,250	\$37,500	\$50,000	\$62,500

Filing Status	Standard Ded	Change in Utah Tax Liability 2018 vs 2017							
	2018	Standard	Itemize	Itemize	Itemize	Itemize	Itemize	Itemize	Itemize
Single 0 Dependents	\$12,000	-\$144	\$183	\$170	\$132	\$120	\$107	\$82	\$57
Single 1 Dependents	\$12,000	\$6	\$333	\$320	\$281	\$268	\$256	\$231	\$206
Single 2 Dependents	\$12,000	\$156	\$482	\$470	\$429	\$417	\$404	\$379	\$350
Single 3 Dependents	\$12,000	\$306	\$632	\$620	\$577	\$565	\$552	\$526	\$500
Single 4 Dependents	\$12,000	\$455	\$781	\$769	\$726	\$713	\$700	\$674	\$648
Single 5 Dependents	\$12,000	\$473	\$930	\$919	\$874	\$862	\$849	\$823	\$797
Single 6 Dependents	\$12,000	\$490	\$1,080	\$1,068	\$1,023	\$1,010	\$997	\$971	\$945

Utah Income Tax

2018 vs 2017

Impact due to Federal & State Legislation Changes

Head of Household Standard Deduction = \$18000

Head of Household Itemizes Deductions > \$18000

Assumption: Itemized Deduction Equals 25% of AGI

		Adjusted Gross Income							
		\$25,000	\$50,000	\$75,000	\$100,000	\$125,000	\$150,000	\$200,000	\$250,000
Item Ded 25% of AGI		\$6,250	\$12,500	\$18,750	\$25,000	\$31,250	\$37,500	\$50,000	\$62,500

Filing Status	Standard Ded	Change in Utah Tax Liability 2018 vs 2017							
	2018	Standard	Standard	Itemize	Itemize	Itemize	Itemize	Itemize	Itemize
HofH 0 Dependents	\$18,000	-\$314	-\$225	\$92	\$132	\$120	\$107	\$82	\$57
HofH 1 Dependents	\$18,000	-\$164	\$9	\$288	\$281	\$268	\$256	\$231	\$206
HofH 2 Dependents	\$18,000	-\$14	\$243	\$483	\$429	\$417	\$404	\$379	\$350
HofH 3 Dependents	\$18,000	\$52	\$347	\$633	\$577	\$565	\$552	\$526	\$500
HofH 4 Dependents	\$18,000	\$118	\$451	\$782	\$726	\$713	\$700	\$674	\$648
HofH 5 Dependents	\$18,000	\$85	\$586	\$932	\$874	\$862	\$849	\$823	\$797
HofH 6 Dependents	\$18,000	\$52	\$750	\$1,081	\$1,023	\$1,010	\$997	\$971	\$945

Utah Income Tax

2018 vs 2017

Impact due to Federal & State Legislation Changes

Married Filing Joint Standard Deduction = \$24000

Married Filing Joint Itemizes Deductions > \$24000

Assumption: Itemized Deduction Equals 25% of AGI

	Adjusted Gross Income							
	\$25,000	\$50,000	\$75,000	\$100,000	\$125,000	\$150,000	\$200,000	\$250,000
Item Ded 25% of AGI	\$6,250	\$12,500	\$18,750	\$25,000	\$31,250	\$37,500	\$50,000	\$62,500

Filing Status	Standard Ded	Change in Utah Tax Liability 2018 vs 2017							
	2018	Standard	Standard	Standard	Itemize	Itemize	Itemize	Itemize	Itemize
MFJ 0 Dependents	\$24,000	-\$123	-\$287	-\$300	\$366	\$302	\$290	\$265	\$240
MFJ 1 Dependents	\$24,000	\$0	-\$137	-\$118	\$549	\$450	\$438	\$413	\$388
MFJ 2 Dependents	\$24,000	\$0	\$12	\$65	\$731	\$599	\$586	\$561	\$535
MFJ 3 Dependents	\$24,000	\$0	\$162	\$182	\$848	\$747	\$735	\$710	\$684
MFJ 4 Dependents	\$24,000	\$0	\$311	\$299	\$964	\$896	\$883	\$857	\$833
MFJ 5 Dependents	\$24,000	\$0	\$461	\$449	\$1,114	\$1,044	\$1,031	\$1,003	\$877
MFJ 6 Dependents	\$24,000	\$0	\$610	\$598	\$1,263	\$1,192	\$1,179	\$1,173	\$1,147

Utah Income Tax
2018 vs 2017
Impact due to Federal & State Legislation Changes
Taxpayer Claims Standard Deduction

Filing Status	2018	Adjusted Gross Income							
	Standard Deduction	\$25,000	\$50,000	\$75,000	\$100,000	\$125,000	\$150,000	\$200,000	\$250,000
Single 0 Dependents	\$12,000	-\$144	-\$156	-\$168	-\$50	-\$63	-\$75	-\$100	-\$125
Single 1 Dependents	\$12,000	-\$24	-\$6	-\$19	-\$50	-\$63	-\$75	-\$100	-\$125
Single 2 Dependents	\$12,000	\$156	\$143	\$131	-\$50	-\$63	-\$75	-\$100	-\$125
Single 3 Dependents	\$12,000	\$305	\$293	\$280	-\$50	-\$63	-\$75	-\$100	-\$125
Single 4 Dependents	\$12,000	\$455	\$442	\$430	-\$50	-\$63	-\$75	-\$100	-\$125
Single 5 Dependents	\$12,000	\$523	\$592	\$579	-\$50	-\$63	-\$75	-\$100	-\$125
Single 6 Dependents	\$12,000	\$490	\$741	\$729	-\$50	-\$63	-\$75	-\$100	-\$125

Utah Income Tax
2018 vs 2017
Impact due to Federal & State Legislation Changes
Taxpayer Claims Standard Deduction

Filing Status	2018	Adjusted Gross Income							
	Standard Deduction	\$25,000	\$50,000	\$75,000	\$100,000	\$125,000	\$150,000	\$200,000	\$250,000
HofH 0 Dependents	\$18,000	-\$327	-\$225	-\$377	-\$103	-\$62	-\$75	-\$100	-\$125
HofH 1 Dependents	\$18,000	-\$177	-\$216	-\$229	-\$136	-\$62	-\$75	-\$100	-\$125
HofH 2 Dependents	\$18,000	-\$27	-\$68	-\$80	-\$93	-\$62	-\$75	-\$100	-\$125
HofH 3 Dependents	\$18,000	\$93	\$80	\$68	\$55	-\$62	-\$75	-\$100	-\$125
HofH 4 Dependents	\$18,000	\$118	\$181	\$216	\$204	\$54	-\$75	-\$100	-\$125
HofH 5 Dependents	\$18,000	\$85	\$331	\$365	\$352	\$237	-\$75	-\$100	-\$125
HofH 6 Dependents	\$18,000	\$52	\$480	\$513	\$501	\$419	-\$82	-\$100	-\$125

Utah Income Tax
2018 vs 2017
Impact due to Federal & State Legislation Changes
Taxpayer Claims Standard Deduction

Filing Status	2018	Adjusted Gross Income							
	Standard Deduction	\$25,000	\$50,000	\$75,000	\$100,000	\$125,000	\$150,000	\$200,000	\$250,000
MFJ 0 Dependents	\$24,000	-\$275	-\$287	-\$300	-\$312	-\$241	-\$75	-\$100	-\$125
MFJ 1 Dependents	\$24,000	-\$125	-\$137	-\$150	-\$162	-\$234	-\$75	-\$100	-\$125
MFJ 2 Dependents	\$24,000	\$0	\$12	\$0	-\$13	-\$25	-\$75	-\$100	-\$125
MFJ 3 Dependents	\$24,000	\$0	\$162	\$149	\$137	\$124	\$12	-\$100	-\$125
MFJ 4 Dependents	\$24,000	\$0	\$311	\$299	\$286	\$273	\$194	-\$100	-\$125
MFJ 5 Dependents	\$24,000	\$0	\$357	\$448	\$436	\$424	\$376	-\$100	-\$125
MFJ 6 Dependents	\$24,000	\$0	\$610	\$598	\$585	\$573	\$559	-\$100	-\$125